

**Greece: Report on Observance of Standards and Codes—
Fiscal Transparency Module—Update**

This update to the Report on the Observance of Standards and Codes on Fiscal Transparency for Greece was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **May 7, 2003**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Greece or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to Publicationpolicy@imf.org.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623 7430 • Telefax: (202) 623 7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

GREECE

Update to the Report on the Observance of Standards and Codes, 2003 Fiscal Transparency Module

Prepared by staff from EU1 in consultation with FAD, on the basis of information provided by the Greek authorities.

May 6, 2003

I. INTRODUCTION

1. The first ROSC for Greece was issued in October 6, 1999.^{1 2} During the 2003 Article IV consultation mission, IMF staff reviewed developments in Greece's observance of the fiscal transparency practices since 1999, with a view to updating changes in current practices, reviewing progress in implementing the initial ROSC's recommendations, and identifying developments relevant for future observance of good fiscal transparency practices.

II. DESCRIPTION OF PROGRESS AND RECENT DEVELOPMENTS

2. The staff recommendations in the first ROSC for Greece focused on four main areas (see the original report for more details):

- Clarity of roles and responsibilities: clarifying the definition of the relative roles of the general government and enterprise sectors, and developing a more consistent legal framework, as well as consistent administrative and accounting practices across the ordinary and investment budgets, and clarifying the linkages between the two budgets.
- Public availability of information: improving reporting on the extent of quasi-fiscal activities (QFAs) in the annual budget report, or eliminating such activities, and improving the timeliness of the dissemination of monthly budget reports.

¹ This *Update* was prepared by Athanasios Vamvakidis, based on information provided by the Greek authorities.

² The original report was issued as Chapter IV of SM/99/255 (10/6/99), the first update was issued as SM/01/25 (2/8/01), Sup. 1, and the second update was issued as SM/02/32 (2/4/02). These documents are available at <http://www.imf.org/external/np/rosc/rosc.asp>.

- Open budget preparation, execution, and reporting: adopting a formal medium-term budget framework, and including in the budget report a comprehensive analysis of the sustainability of the Government's fiscal position, a summary statement of the operations, balance sheet, and proposed plans of DEKA,³ a clearer quantitative assessment of the magnitude of possible risks to the budget estimates, a clear statement on the basis of accounting and the accounting policies underlying the budget, and more information on transactions involving increase by the government in equity positions in public enterprises.
- Independent assurances of integrity: establishing formal hearings of the audited financial statements of the state, issuing formal advance release data calendars for all major statistical reports, and subscription to the Special Data Dissemination Standard (SDDS).

3. Progress in addressing these recommendations noted in the previous ROSC updates included:

- Publishing a tax expenditure budget.
- Including in the annual budget a report on the operations and proposed plans of DEKA and a list of the shares that DEKA and the government own.
- Limiting the scope and improving the transparency and monitoring of the operations of extrabudgetary funds.
- Increasing the scope of information available electronically, including, among other things, information regarding tax issues (also including electronic filing of taxes), the public debt, the implementation of the budget, and civil service salary scales and pensions.

4. Two important steps toward improving fiscal transparency since the last ROSC update were Greece's subscription to the SDDS in November 2002, and participation in the preparation of the data module of the Report on the Observance of Standards and Codes (ROSC). Other steps included improving fiscal audits and the evaluation of budget expenditure, measures in the recent tax reform to simplify the tax system, initial efforts to introduce a new accounting system in the central government, and upgrading the role of parliament in auditing the financial statements of the state. These and other steps are discussed below in more detail.

³ DEKA S.A. is an enterprise wholly owned by the government that was set up to handle the proceeds of privatized assets and retire outstanding government debt.

Clarity of roles and responsibilities

5. Efforts are underway to improve coordination between the ordinary budget and the investment budget. The Ministry of National Economy and the Ministry of Finance were unified under the Ministry of Economy and Finance (MEF) in March 2002. Among other benefits, this provided a framework to better coordinate preparation of the investment budget, which was previously prepared by the Ministry of National Economy, and the ordinary budget, which was prepared by the Ministry of Finance.

6. The government introduced a major tax reform in 2002, aimed at establishing a simpler and more transparent tax system. The measures adopted included simplifying bookkeeping regulations and VAT compliance rules, eliminating a large number of deductions, exemptions, and stamp duties, abolishing most presumptive determinants of income, and reducing the number of personal income tax brackets. Future reforms are expected to focus on the local tax system, eliminating the remaining stamp duties, and improving tax administration.

Public availability of information

7. Greece subscribed to the International Monetary Fund's Special Data Dissemination Standard (SDDS) on November 8, 2002. The MEF disseminates fiscal data on the general government operations, central government operations, and on public debt. These and other related data are published on the website of the General Accounting Office and the National Statistical Office. SDDS subscription provides the means to carry out a comprehensive comparison and analysis of Greece's statistical practices vis-à-vis the more than 50 other subscribing countries. Subscription coincides with Greece's participation in the preparation of the data module of the ROSC, which is expected to suggest further improvements in data quality and availability and in fiscal transparency.

Open budget preparation, execution, and reporting

8. The government is working on a new accounting system for the central government.⁴ A study was assigned to the Greek Chartered Accountants on a new accounting system in the central government, which was completed in 2002. A pilot application is currently in progress in the Government Accounting Office, which will determine the final form of the new system and its timetable. The new chart of accounts is similar to those applied in the private sector, adjusted to the needs of the central government. It is similar to those proposed by the IMF Government Finance Statistics Manual 2001, and its implementation will allow the compiling of a public sector balance sheet (a timetable for which remains to be determined).

⁴ For public law entities and local authorities a similar, accrual-based accounting system is already in place. The public enterprises have to follow the accounting system used by the private sector.

9. Work is also underway on improving the auditing system. The MEF has undertaken a comparative examination of its auditing mechanism against those used by European Union and other advanced economies. Improvements of the system, which will also include a framework for cost-benefit analysis of public expenditure, are expected to be implemented by the end of 2003.

10. The government plans to renew efforts to introduce multi-year budgeting in 2004. Some efforts to introduce multiyear budgeting took place in the 2002 budget, which included outlines of the 2003 and 2004 budgets for illustrative purposes after requesting ministries to submit their spending proposals. The 2003 budget did not include such an exercise, although the updated Stability and Growth Program (SP) for Greece provides a multiyear macroeconomic framework and fiscal targets up to 2006. The MEF is working to define necessary procedures, both legal and administrative, for multiyear budgeting, and plans to renew efforts for introducing multiyear budgeting in the 2004 budget.

11. The government plans to introduce a "Code of Fiscal Stability" in 2003. The new framework, to take effect in 2004, is to limit borrowing for all levels of government and public sector entities to infrastructure investment and military equipment purchases.

12. Some steps to measure fiscal sustainability and risks have also been taken. The updated SP submitted to the EU at the end of 2002 included an illustrative scenario elaborating the required fiscal adjustment necessary to achieve long-term sustainability of public finances up until 2050. The exercise also included projections for pension expenditures, which are discussed in more detail in a report on the pension system in Greece published by the Ministry of Economy and Finance and the Ministry of Labor and Social Security. The updated SP also presented medium-term fiscal projections under a low growth scenario, while the 2003 budget included some references to the sensitivity of the projections to interest rate changes.

Independent assurances of integrity

13. The role of parliament in auditing the financial statements of the state has been upgraded. A new parliamentary committee has been established to examine the budget outcome report, to be discussed in a separate plenary session. The MEF is obliged to inform semiannually the parliamentary committee on the budget's implementation and to provide relevant monthly data.

14. The fiscal accounts and targets are reviewed by Eurostat, the EU, and representatives of other EU member governments. Eurostat reviews on a regular basis the fiscal statistics of its members, including Greece. In November 2002, this review resulted in revised general government overall balance and debt data for 2000–01, reclassifying some expenditures, recorded previously "below-the-line", as deficit-increasing capital expenditures (see staff report (SM/03/152, 4/25/03) for details).

III. IMF STAFF COMMENTARY

15. The staff welcomes the authorities' initiatives to improve fiscal transparency according to the recommendations in the first ROSC for Greece. In particular, the staff notes Greece's recent subscription to the SDDS and participation in the preparation of the data module of the ROSC, as well as steps to improve fiscal audits and the evaluation of expenditure, measures to simplify the tax system, and the upgraded role of parliament to audit the financial statements of the state. However, some of the efforts highlighted above are taking a long time to implement (and were also underway during previous ROSC updates), and some still lack a specific timetable for their completion. Due to delays and setbacks in many areas, most of the work to address the weaknesses highlighted in the first ROSC still lies ahead and should be pursued without further delay. The recent unification of the Ministry of National Economy and the Ministry of Finance could improve budget preparation—and consideration should be given to unifying the investment and ordinary budgets as well as their preparation—and it could facilitate the introduction of a medium-term budget framework. Efforts should also focus on conducting a comprehensive analysis of the sustainability of the fiscal position on a regular basis, including a detailed analysis of risks to the budget estimates, introduction of the new accounting system in the central government, compilation of a public sector balance sheet, and improvement of expenditure auditing procedures.